

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

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|---|---|-----------------|
| AN EXAMINATION BY THE PUBLIC SERVICE |) | |
| COMMISSION OF THE ENVIRONMENTAL |) | |
| SURCHARGE MECHANISM OF LOUISVILLE GAS |) | CASE NO. 98-057 |
| AND ELECTRIC COMPANY AS BILLED FROM |) | |
| MAY 1, 1995 TO APRIL 30, 1997 AND MAY 1, 1997 |) | |
| TO OCTOBER 31, 1997 |) | |

O R D E R

On January 30, 1998, the Commission initiated its first two-year review of Louisville Gas and Electric Company's ("LG&E") environmental surcharge as billed to customers from May 1, 1995 to April 30, 1997 and the six-month review of the surcharge as billed from May 1, 1997 to October 31, 1997.¹ Pursuant to KRS 278.183(3), the Commission must review, at six-month intervals, the past operations of the surcharge and, after hearing, disallow any surcharge amounts that are not just and reasonable and reconcile past surcharge collections with actual costs recoverable. At two-year intervals, the Commission must review and evaluate the past operations of the surcharge and, after hearing, disallow improper expenses and to the extent appropriate incorporate surcharge amounts found just and reasonable into the existing base rates of the utility.

¹ Since LG&E's surcharge is billed on a two-month lag, the amounts billed from May 1995 through April 1997 are based on costs incurred from March 1995 through February 1997; amounts billed from May 1997 through October 1997 are based on costs incurred from March 1997 through August 1997.

In anticipation that those parties to LG&E's last six-month review would desire to participate in this proceeding, the Attorney General's office ("AG") and the Kentucky Industrial Utility Customers ("KIUC") were deemed parties to this proceeding. A public hearing was held on May 7, 1998. All information requested at the public hearing has been filed.

SURCHARGE ROLL-IN

The Commission's Order in Case No. 94-332² establishing a surcharge for LG&E has been appealed to the Franklin Circuit Court. That appeal is being held in abeyance pending a final decision in the appeal of the Kentucky Utilities Company's ("KU") surcharge, Case No. 93-465,³ which is now pending before the Kentucky Supreme Court.

LG&E indicated that it does not believe the surcharge should be incorporated into existing base rates at this time. LG&E expressed the opinion that, until such time as all legal actions have been exhausted, it would be premature to incorporate the surcharge into existing base rates.⁴ LG&E has also indicated that the Commission should

² Case No. 94-332, The Application of Louisville Gas and Electric Company for Approval of Compliance Plan and to Assess a Surcharge Pursuant to KRS 278.183 to Recover Costs of Compliance with Environmental Requirements for Coal Combustion Wastes and By-Products.

³ Case No. 93-465, The Application of Kentucky Utilities Company to Assess a Surcharge Under KRS 278.183 to Recover Costs of Compliance with Environmental Requirements for Coal Combustion Wastes and By-Products.

⁴ Response to the Commission's January 30, 1998 Order, Item 6.

continue to require that all surcharge revenues collected during the review periods be subject to refund, pending the final resolution of the appeal of Case No. 94-332.⁵

The Commission finds that the surcharge should not be incorporated into base rates until the appeals are concluded. In addition, the Commission agrees with LG&E that it is appropriate to continue the subject to refund provision.

SURCHARGE ADJUSTMENT

In its January 30, 1998 Order, the Commission indicated that since the two-year and six-month periods under review in this proceeding may have resulted in over- or under-recoveries, the Commission would entertain proposals to adopt one adjustment factor to net all over- or under-recoveries. LG&E determined that for the two-year and six-month review periods, it over-recovered its environmental costs by a cumulative \$3,476.⁶ While LG&E initially proposed to return the cumulative over-recovery to customers over the next six-month period, it stated that it would be agreeable to returning the cumulative over-recovery to customers in one month.⁷

The Commission has reviewed and finds reasonable LG&E's calculation of a cumulative over-recovery of \$3,476 for the two-year and six-month review periods. The Commission also finds it reasonable to reduce the environmental surcharge revenue requirement calculated in the first full billing month following the date of this Order by \$3,476.

⁵ Transcript of Evidence ("T.E."), May 7, 1998, at 7.

⁶ Response to the Commission's January 30, 1998 Order, Item 8.

⁷ T.E., May 7, 1998, at 6.

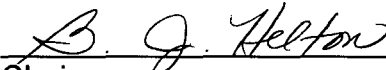
IT IS THEREFORE ORDERED that:

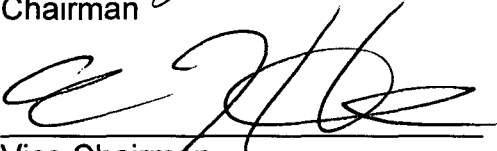
1. LG&E shall deduct \$3,476 from the environmental surcharge revenue requirement determination in its next monthly surcharge report.

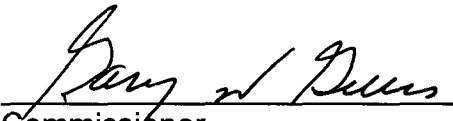
2. All surcharge revenues collected during the two-year and six-month periods under review shall be subject to refund pending the final resolution of Case No. 94-332. LG&E shall maintain its records in a manner that will enable it, the Commission, or any of its customers to determine the amounts to be refunded and to whom due in the event a refund is ordered.

Done at Frankfort, Kentucky, this 15th day of July, 1998.

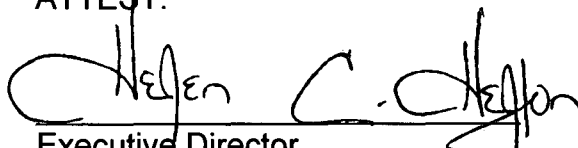
PUBLIC SERVICE COMMISSION


Chairman


Vice Chairman


Commissioner

ATTEST:


Executive Director